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**STATEMENT OF MR. HILARY O. SHELTON
DIRECTOR, WASHINGTON BUREAU OF THE
NATIONAL ASSOCIATION FOR THE
ADVANCEMENT OF COLORED PEOPLE
ON H.R. 3915, THE *MORTGAGE REFORM AND ANTI-PREDATORY
LENDING ACT OF 2007*
BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES**

October 24, 2007

Thank you, Chairman Frank and members of this committee for the opportunity to testify before you today on the problems of predatory mortgage lending and on your new legislation, H.R. 3915 the *Mortgage Reform and Anti-Predatory Lending Act of 2007*, which is intended to help bring an end to this heinous practice. My name is Hilary Shelton and I am the Director of the NAACP Washington Bureau, the federal and public policy advocacy arm of our Nation's oldest, largest and most widely known grassroots civil rights organization.

Let me begin by thanking you, Mr. Chairman, as well as your colleagues Congressmen Brad Miller and Mel Watt and others, as well as the entire membership of this committee and your staff for all that you have done to aggressively address the problem of predatory lending. Chairman Frank, Congressman Miller, Congressman Watt, you have all consistently been Congressional champions of the civil rights movement and with this legislation you continue to show your concern and commitment to the rights and protection of all Americans.

Predatory mortgage lending, as anyone who reads the newspapers or watches television can tell you, is having a tremendous negative effect on our communities, our nation and our national economy. In addition to being concerned for the well-being of our great Nation, however, the NAACP is especially concerned about and offended by predatory mortgage lending because of its disparate impact on communities of color.

Predatory lending is unequivocally a major civil rights issue of our time. As study after study has conclusively shown, predatory lenders consistently target African Americans, Latinos, Asians and Pacific Islanders, Native Americans the elderly

and women at such a disproportionately high rate that the effect is devastating to not only individuals and families, but whole communities as well. Predatory lending stymies families' attempts at wealth building, ruins people's lives and, given the disproportionate number of minority homeowners who are targeted by predatory lenders, decimates whole communities of color.

According to a recent study by the Furman Center in New York, between 2002 and 2006, the percentage of subprime loans to African American borrowers rose from 13.4% in 2002 to 47.1% in 2005¹. Furthermore, study after study has shown that African Americans and other Americans of color are targeted by predatory lenders and steered into predatory loans at a disproportionate rate.

These numbers become especially important as subprime mortgage loans become foreclosures. Over the next two years, an estimated \$600 billion in subprime mortgages will reset from the two- or three-year teaser rates and many borrowers, including an overrepresentation of African Americans and Latinos, will face a significant increase in their monthly payments².

The impact this will have on whole neighborhoods and communities predominantly populated by African Americans, Latinos and other racial and ethnic minority Americans will be nothing short of devastating. A report issued last year by the Center for Responsible Lending estimated that 1 out of every 5 mortgages that originated during the last two years will end in foreclosure³.

To date, the federal government has been largely inattentive to the problems surrounding predatory lending, and in fact some of the rules and proposals we have seen in the last few years appear to go backward and take away some of the few protections we have gotten at the state level.

This flies in the face of the NAACP's belief that the primary responsibility of the government is to protect its citizens, all of its citizens, not to exploit them or allow them to be exploited for the financial gain of a few. As our democratically elected representatives, the NAACP has consistently called on Congress to enact aggressive and effective federal laws to curb predatory lending, and to soundly reject attempts at addressing predatory lending that will not resolve the underlying problems and will, in fact, roll back the few protections that a few states have put into place.

That is why the legislation we are discussing today, H.R. 3915, is so important. This legislation aggressively addresses steering, in which borrowers are put into loans that have higher interest rates or involve fees and penalties above what their credit rating warrants. Studies have shown that even higher income African

¹ Furman Center of calculations of 2006 HMDA data

² Jonathan R. Liang, *Coming Home to Roost*, BARRONS (New York, NY), February 13, 2006

³ Center for Responsible Lending. December, 2006. *"Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners"* Ellen Schloemer, Wei Li, Keith Ernst and Kathleen Keest.

Americans pay more for loans than lower income whites. An example of steering would be the woman who called the NAACP National Headquarters last month to report that she had been convinced to take out a \$30,000 home equity loan, and that \$26,000 of that loan went to pay points and fees.

In addition to steering, H.R. 3915 aggressively addresses and effectively eliminates yield spread premiums, an incentive for mortgage brokers to steer people into more expensive loans. Yield Spread Premiums are included in 85 – 90% of all subprime loans⁴ and provide brokers a strong incentive to charge borrowers a higher interest rate when they could qualify for a less expensive loan.

Another issue that has proven to be a real problem in communities of color and among African American borrowers specifically is prepayment penalties. According to the Center for Responsible Lending, 70% of subprime mortgages feature prepayment penalties. For a family with a \$150,000 mortgage at an interest rate of 10%, a typical prepayment penalty imposes a fee of \$6,000 for an early payoff (which includes refinancing). This amount is more than the entire net worth of the median African American family at this early stage.

It is because of these problems that we applaud your efforts to aggressively stop some of the more damaging predatory mortgage lending practices through the legislation you recently introduced. H.R. 3915 outlaws steering, yield spread premiums and effectively stops the problems associated with prepayment penalties in the subprime market. The NAACP cannot thank the sponsors and co-sponsors of this historic legislation enough for their aggressive positions on these and other troubling practices that are too often being applied in a discriminatory manner so the result is a disparate decimation of communities of color. We applaud your efforts and pledge to continue to work with you to ensure that these tough yet necessary steps are enacted.

Unfortunately, as the NAACP knows all too well, we must have tough enforcement provisions to ensure that these new laws are adhered to. We cannot allow skirting the law to be seen as merely a cost of doing business. We must make the penalties stiff and we must show industry, as well as the American public, that we mean business.

Let me also take a minute to address an issue that I am sure is on the minds of many involved in this debate. The NAACP strongly believes that there must be a strong federal standard to address predatory lending. We believe that states must abide by those standards. Yet we also believe that states must retain the flexibility to address local or regional issues, and that states can and should be able to address new abusive products that may arise if and when the current problems are addressed.

⁴ Center for Responsible Lending, June 18, 2004, “Yield Spread Premiums: A Powerful Incentive for Equity Theft”

The NAACP believes that any federal policies that are enacted should be treated as a minimum standard, and that states should be able to enact even tougher laws tailored to address their own unique brand of predatory lending.

Thank you again, Chairman Frank, for your efforts; we look forward to continuing to work with you and the rest of the committee to effectively and aggressively put an end to predatory lending.